

Human Resource Services*

News from the Nordic countries



Issue 4, September 2009

Introduction

We are happy to provide you with our latest issue of News from the Nordic Countries. The newsletter includes updates from the Nordic countries in respect of immigration, tax and social security. In this issue you will find some brief information about the new Danish tax reform which is coming up, and in this issue's theme we provide you with an overview of the taxation of stock options applicable in Denmark, Finland, Norway and Sweden. Our Global Tax Service Network will gladly provide you with more information on this topic. Our next issue is due for the end of October.

Erland Nørstebø – Partner HRS Norway

News

Denmark

The Danish government has passed a new Danish tax reform that will be gradually implemented during 2010-2019.

The main elements of the tax reform in short:

- The marginal tax rate is reduced
- The taxable value of personal reliefs is reduced
- The possibility of granting employee shares on tax favourable terms are reduced, and the tax advantage on employee bond schemes is abolished

In 2010, the bottom tax rate will be reduced by 1.5%, from 5.26% to 3.76%, the middle tax will be abolished, and the top tax bracket will be increased from DKK 347 200 to DKK 389 900. This results in a reduction of the marginal tax rate from 59.0% to 51.5%.

The taxable value of personal reliefs will be reduced gradually from 33.5% in 2012 to 25.5% in 2019. This reduction will, however, not affect the personal relief for interest expenses up to DKK 50 000 (DKK 100 000 for married couples).

From 2010 and onwards, contributions to old age pensions above DKK 100 000 are no longer tax exempt.

CLIENT EVENTS

8 September 2009

US tax and tax return filing obligations for expatriates

Göteborg

9 September 2009

US tax and tax return filing obligations for expatriates

Stockholm



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Theme: Stock options

Many companies use employee stock options plans to compensate, retain and attract employees. These plans are contracts between a company and its employees that give employees the right to buy a specific number of the company's shares at a fixed price within a certain period of time. Employees who are granted stock options hope to profit by exercising their options at a higher price than when they were granted. Traditionally, stock option plans have been used as a way for companies to reward top management and "key" employees and link their interests with those of the company and other shareholders. More and more companies, however, now consider all of their employees as "key". Below we provide a brief overview of the current tax regulation in connection with employee stock options in the various Nordic countries.

Denmark

Employee stock options: Danish tax reform affects taxation on old incentive programs. Under the ordinary rules, stock options are taxed when exercised, and the spread is taxed as salary income. If, however, a set of qualified rules is applied, taxation is deferred until the point in time when the employees sell the underlying shares, and taxation will then be carried out as a capital gains taxation, which implies a lower tax rate.

In May 2009, a large tax reform was passed, which – in some instances – retroactively removes the possibility of applying the tax qualified rules. For some stock option programmes (and also some other programmes which use qualified rules), this implies that the expected taxation is no longer available, even though grant happened prior to May 2009. We recommend that clients investigate the specific consequences for them further.

Finland

Employee stock options: Finland taxes stock option benefit at the time of exercise. Income related to stock options is regarded as earned income and taxed at progressive tax rates.

If the options are exercised by subscribing for shares, the taxable amount of the option benefit is the difference between the fair market value of the shares at the time of exercise and the total price paid under the stock option plan by the employee for the shares and the option rights (if any). If the options are exercised by selling the options, the taxable amount of the option benefit is the sales price of the options.

International working situations: Finland basically uses the so-called time apportionment principle when determining the taxable portion of stock option benefit. This means that the employee is subject to tax in Finland only on the portion of the benefit attributable to the days spent in Finland before and/or after the assignment, and part of the benefit attributable to foreign workdays is exempt from taxes in Finland. The whole stock option benefit shall, however, be reported on the Finnish tax return.

When the employee is covered by the Finnish social security system, he has to pay medicare premium (1.45% in 2009 – when no daily allowance premium is payable the normal rate is increased with 0.17%) on the taxable stock option benefit. The stock option benefit is not subject to other employee or employer social security contributions.

The employer is responsible for withholding income tax due on the benefit arising from the stock option benefit. The employer must also report the taxable benefit in the employer's monthly and annual payroll reports to the tax administration.

Sweden

Employee stock options: If the employee receives a conditional right to acquire shares, i.e. the right connected to the employment and certain targets are set, the employee stock option is taxed as employment income upon exercise. The taxable benefit is calculated as the market value of the share less the exercise price. As of January 2009, no exit tax is levied on employee stock options that have vested but are not exercised upon departure from Sweden.

Stock options (securities): If the employee receives an irrevocable right to acquire shares, i.e. the right is not connected to the employment, which can be transferred, the stock option is taxable as employment income upon grant. The taxable benefit is calculated as the market value of the securities less any payment made by the employee to subscribe the securities.

Norway

Employee stock options: Norway taxes stock option benefit at the time of exercise. The difference between the full market value at exercise and the exercise price is taxed as employment income and subject to social security contributions. If some special conditions are met, up to NOK 1 500 per year may be considered tax free. The sale of the acquired shares is taxed as capital income.

International working situations: Norwegian tax authorities will generally accept a pro-rata apportionment in cases where an employee is tax resident in Norway at the time of exercise, but has been working abroad in the period between grant and vest. The new exit rules (effective from 1 January 2007) also apply to employee stock options.

